

MINUTES  
MEETING OF THE  
ILLINOIS STATE BOARD OF INVESTMENT  
FRIDAY, JUNE 15, 2012 – 9:15 A.M.

Present:

Board Members

Roderick Bashir  
Devon Bruce  
Michele Bush  
James Clayborne  
Steven Powell  
Judy Baar Topinka, via telephone

Staff

Andrew Armonaitis  
William Atwood  
Johara El-Harazin  
Adanna Ene, via telephone  
Timothy Kominiarek  
Scott Richards  
Linsey Schoemehl  
Katherine Spinato  
Alise White, via telephone

Guests

State Retirement Systems  
Tim Blair, Jane Waldeck  
Office of the State Treasurer  
Bridget Byron  
Marquette Associates  
Brian Wrubel, Elizabeth Francis, Dave Smith  
Service Employees International Union  
Edgar Hernandez  
Loop Capital  
Jason Parks

Absent:

Board Member

John Casey  
Thomas Hoffman  
Dan Rutherford

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## ***ROLL CALL***

Chairman Bruce called the meeting to order at 9:15 a.m. The Secretary called the roll and noted that a quorum was present. Senator Clayborne moved to approve phone participation by Comptroller Topinka. Ms. Bush seconded and the motion passed unanimously.

## ***REPORT OF THE CHAIRMAN***

Chairman Bruce thanked everyone for attending the off-site meeting.

Chairman Bruce reported that Mr. Bashir had resigned from the Audit & Compliance Committee and therefore, he was appointing Mr. Powell to serve on that Committee.

The Chairman stated that the Personnel Matters listed in his report on the Agenda would be considered in Executive Session later in the meeting.

## ***COMMUNICATIONS***

Ms. Bush reminded all Members that the deadline for the Ethics Training certification was June 30, 2012.

## ***MINUTES OF PREVIOUS MEETING***

Comptroller Topinka moved to approve the minutes of the Board meeting held April 6, 2012, in the form previously submitted. Ms. Bush seconded and the motion passed unanimously.

## ***REPORT OF STANDING COMMITTEES***

### **Emerging Manager Committee**

Senator Clayborne reported that the Emerging Manager Committee had met the previous afternoon and that a report was presented by Staff and Consultant on the Emerging/Minority Managers, an update was given on the minority certification process and the Committee was recommending a search for a small cap core manager in the emerging/minority space.

Following review, Mr. Powell moved to approve conducting a search for an emerging/minority small cap core manager. Mr. Bashir seconded and the motion passed unanimously.

### **Investment Policy Committee**

Chairman Bruce stated that the Investment Policy Committee had also met the previous afternoon and reported the following actions:

- Mr. Bruce was elected Chairman of the Investment Policy following Judge Hoffman's prior resignation.
- Director Atwood reviewed the hedge fund portfolio and stated that specific strategy and a recommendation would be presented to the Board at the September meeting.
- Informational presentations were given by LSV Asset Management, Herndon Capital, Decatur Capital, Clarion Partners, Valor Equity Partners and Ariel Investments.

#### Audit & Compliance Committee

Ms. Bush stated that the Audit & Compliance Committee had met prior to this meeting and reported the following actions:

- The minutes of the Audit and Compliance Committee meetings held April 6, 2012, were approved.
- Ms. White reported that the FY2012 audit had commenced.
- Ms. Spinato reported there were no exceptions to report to the Staff's Monthly Personal Transactions Report through March 2012.
- The Commission Recapture Report for the quarter ending March 2012 was reviewed and approved.
- The Records of Vouchers for the months of January, February and March 2012 were reviewed and approved.
- The Committee approved third-party reimbursement for a travel request for Director Atwood.
- The Committee reviewed and accepted the report on placement agent contacts for FY 2012 4th Quarter.
- Ms. Bush requested appointed Board Members to submit quarterly timesheets.
- Mr. Bashir resigned from the Audit & Compliance Committee.

Mr. Bashir moved to approve and ratify the actions of the Audit & Compliance Committee as outlined above. Mr. Powell seconded and the motion passed unanimously.

#### ***DEFERRED COMPENSATION***

##### Report of Consultant – Marquette Associates

Mr. Wrubel, Marquette Associates referred the Board Members to the "Illinois State Board of Investment Deferred Compensation Executive Summary" for the quarter March 2012. (Official minutes contain attachments.)

Mr. Wrubel reviewed the investment performance and provided an update on the status of the index fund search.

Ms. Schoemehl referred to her memorandum "Investment Policy for the State of Illinois Deferred Compensation Plan" dated June 4, 2012 and reviewed the proposed revisions.

Following discussion, Ms. Bush moved to approve the revisions to the Investment Policy, as recommended by the Consultant and Staff. Mr. Bashir seconded and the motion passed unanimously. (Official minutes contain attachments.)

#### Consideration of Hardship Appeals

Ms. Schoemehl stated that the Hardship Appeals would be conducted during the Executive Session.

### ***REPORT OF CONSULTANT – MARQUETTE ASSOCIATES***

#### Investment Performance Report – March 2012 and April 2012 Interim Report

Mr. Wrubel reported that the Investment Performance Report for the quarter ending March 2012 had previously been distributed. Mr. Wrubel distributed the Flash Report for April 2012. (Official minutes contain attachment.)

Director Atwood reviewed the structure of the Real Estate portfolio. Mr. Wrubel distributed copies of the Real Estate report and reviewed the portfolio and structure. (Official minutes contain attachment.)

### ***REPORT OF THE DIRECTOR***

Chairman Bruce stated that the Board would go into Executive Session to discuss deferred compensation hardship appeals (5 ILCS 120/2(c)(4)), specific investment manager contracts (5 ILCS 120/2(c)(7)), current Board litigation (5 ILCS 120/2(c)(11)) and compensation of specific Board employees (5 ILCS 120/2(c)(1)). Senator Clayborne moved to go into Executive Session for the above-stated purposes. Ms. Bush seconded and the motion passed unanimously.

Guests and Staff were excused from the meeting with the exception of Director Atwood, Ms. Schoemehl and Ms. Spinato.

Mr. Bashir moved to return to the Open Session. Senator Clayborne seconded and the motion passed unanimously.

Following Executive Session, Chairman Bruce stated that four Hardship Appeal requests had been received and considered in Executive Session. Mr. Powell moved to approve the following deferred compensation hardship appeals:

Anthony Morris – uphold the Hardship Committee's action and deny the hardship appeal as recommended by the Hearing Officer.

Sam Lafikes – approve and accept the recommendation of the Hearing Officer and allow a hardship distribution in the amount of \$5,394.

Sheila Leggette – uphold the Hardship Committee’s action and deny the hardship appeal as recommended by the Hearing Officer.

Elaina White – approve and accept the recommendation of the Hearing Officer and allow a hardship distribution in the amount of \$1,100.

Mr. Bashir seconded and the motion passed unanimously.

Mr. Powell moved to approve conducting an RFP for a bank loan manager to review at a future meeting. Mr. Bashir seconded and the motion passed unanimously.

#### Watch List

Mr. Richards reported that the Watch List was previously distributed and reviewed. (Official minutes contain attachment.)

#### Matters Relating to Existing Managers

Director Atwood stated that a memorandum was previously distributed. (Official minutes contain attachment.)

#### Proposed Revisions to Code of Ethics for Board Members and Code of Ethics for Staff

Ms. Schoemehl stated that the revised Code of Ethics for Board Members and Code of Ethics for Staff were previously distributed. Following review, Comptroller Topinka moved to approve the revisions as previously distributed. Senator Clayborne seconded and the motion passed unanimously. (Official minutes contain attachment.)

#### Proposed Amendment to ISBI Travel Policy and Employee Directives Manual

Ms. Spinato distributed copies of proposed revisions to the ISBI Travel Policy and Employee Directives Manual. Following review, Mr. Powell moved to approve the revisions as proposed. Ms. Bush seconded and the motion passed unanimously. (Official minutes contain attachment.)

#### Update on Securities Lending – Quarter Ended 03/31/12

Ms. El-Harazin referred the Members to a memorandum “Securities Lending Reporting – March 31, 2012” dated May 29, 2012 and reviewed. (Official minutes contain attachment.)

#### Review of Transaction Cost Analysis

Ms. El-Harazin referred the Board Members to “Transaction Cost Analysis (TCA) Summary Report – Equity and Fixed Income Reports” for the period ended March 31, 2012, and reviewed. (Official minutes contain attachment.)

#### Review of FX Cost Analysis

Ms. El-Harazin stated that the FX Summary Report for the quarter ended March 31, 2012 was previously submitted, and reviewed. (Official minutes contain attachment.)

#### Update on Investment Manager Transactions

Ms. El-Harazin reviewed the memorandum "Funding of New State Street Global Emerging Markets Account" dated May 29, 2012. (Official minutes contain attachment.)

#### Minority Broker Usage Report

Ms. El-Harazin reviewed the minority brokerage commissions for the quarter ended March 31, 2012, as outlined in the memorandum "Minority Broker Commission Report as of March 31, 2012. Mr. Bashir moved to accept the report. Mr. Powell seconded and the motion passed unanimously. (Official minutes contain attachment.)

#### Update on Status of Illinois Power Agency

Director Atwood stated that a report was previously distributed "Illinois Power Agency Trust Fund" dated May 30, 2012 and that the funds had been received prior to this meeting. (Official minutes contain attachment.)

#### Quarterly Financial Statements

Ms. White stated that the financial statements for the quarters ended December 31, 2011 and March 31, 2012, were previously distributed. Mr. Powell moved to approve the financial statements for the quarters ended December 31, 2011 and March 31, 2012. Ms. Bush seconded and the motion passed unanimously.

#### Proposed FY2013 Budget

Ms. Bush moved to approve the Fiscal Year 2013 Budget as revised and distributed earlier in the meeting. Mr. Bashir seconded and the motion passed unanimously. (Official minutes contain attachment.)

#### Budget Comparison

Ms. White stated that the Budget Comparison for the quarter ended March 31, 2012 was previously distributed. The Chairman order the report filed. (Official minutes contain attachment.)

#### Revised Disaster Recovery Plan

Ms. White reported that the previously distributed Disaster Recovery Plan had been revised to include updates to the IT systems. Ms. Bush moved to approve the Disaster Recovery Plan as previously distributed. Mr. Bashir seconded and the motion passed unanimously.

#### Legislative Update

The Director reported that the proposed pension legislation did not pass.

#### Update on Foreign Markets: India and Taiwan

Mr. Richards referred the Board Members to his memorandum "Investing in India and Taiwan" dated June 4, 2012. Mr. Richards reviewed and updated the Members on investing in the India and Taiwan markets and recommended that commingled funds be utilized when available for India exposure and an RFP be reissued for a tax advisor to make direct investments in Taiwan.

Following review and discussion, it was the consensus of the Board Members to accept the Staff recommendation to amend the investment guidelines, where applicable, in order to allow investments in commingled funds in India markets and to reissue the RFP for a tax advisor to make direct investments in the Taiwan markets. (Official minutes contain attachment.)

#### Update on Corporate Governance Matters

Ms. Schoemehl referred the Members to her memorandum "Harvard Law School Shareholder Rights Project Update" dated June 5, 2012. (Official minutes contain attachment.)

Ms. Schoemehl further stated that a report "Accomplishments Related to Corporate Governance 2003-2012" had previously been distributed and would be happy to review or discuss with any Members. (Official minutes contain attachment.)

#### ***REPORT OF ANY BOARD MEMBER***

Ms. Bush commended Chairman Bruce on the venue and stated that she felt it would advantageous to hold one meeting each year outside of Chicago.

#### ***NEW BUSINESS***

Mr. Wrubel requested approval to amend the investment guidelines of the small cap managers to allow for the use of ETF's. Following discussion, Ms. Bush moved to approve amending the small cap managers' investment guidelines to allow the use of ETF's as outlined by Mr. Wrubel. Mr. Bashir seconded and the motion passed unanimously.

#### ***UNFINISHED BUSINESS***

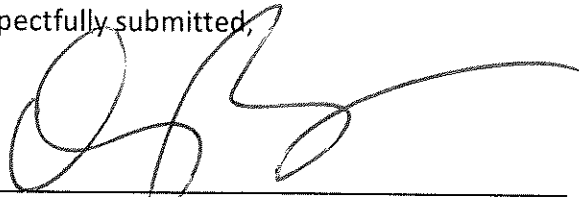
None.

**NEXT MEETING AND ADJOURNMENT**

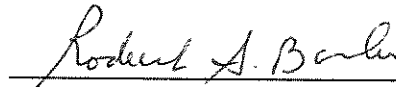
Chairman Bruce stated that the next meetings of the Audit & Compliance Committee and Board were scheduled to be held Friday, September 28, 2012 at 9:00 a.m. and 9:15 a.m., respectively.

At 11:40 a.m., there being no further business to come before the Board, Ms. Bush moved to adjourn. Comptroller Topinka seconded and the meeting was adjourned.

Respectfully submitted,

A handwritten signature in dark ink, appearing to be 'Devon Bruce', written over a horizontal line.

Devon Bruce, Chairman  
Illinois State Board of Investment

A handwritten signature in dark ink, appearing to be 'Roderick A. Bashir', written over a horizontal line.

Roderick Bashir, Vice Chairman  
Illinois State Board of Investment